

## THE ROLE AND EFFECTIVENESS OF THE BOARD OF DIRECTORS

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### ABSTRACT

*An organization's success extremely depends on people. An organization must always pursue business objectives with integrity and in compliance with all laws. There are no exceptions that organization's unrelenting commitment to ethics and compliance, strength bond of trust with most of stakeholders, customers, shareholders, business partners, regulators and community. The set of regulations, procedures and policy by which an organization is headed and ruled is recognized as "Corporate governance".*

*It is about promoting business equality, precision and liability. The set of regulations, procedures and policy by which an organization is headed and ruled.*

**KEYWORDS:** *Organization, Business, Economic, Efficiency, Shareholders & Policy*

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### INTRODUCTION

#### CORPORATE GOVERNANCE - THE NEED

##### Wide Spread of Share Holders

A company having a large number of shareholders spread all over the nation and even the world, having a majority of shareholders being unorganized having an indifferent attitude towards corporate affairs, shareholder democracy remaining confined only to law and the articles of association, which requires a practical implementation through code of conduct.

##### Changing Ownership Structure

With institutional investors and mutual fund investors becoming largest shareholders in the large corporate private sector, the change in the pattern of ownership has changed considerably.

##### Corporate Scams

The need of corporate governance is imperative for reviving investor's confidence in the corporate sector towards economic development of society, because certain past corporate scandals such as Harshad Mehta scandal have shaken public confidence in corporate management.

##### Greater Expectation of Society of Corporate Society

Rise in societal expectation such as quality product, reasonable price, and quality service, optimal utilization of resources, etc. needs a code of corporate governance, for the best management of company in economic and social terms.

### **Hostile Takeovers**

Hostile takeover of certain corporate companies put a query on efficiency of management of taken over companies. Thus to form an efficient code of conduct of corporate management, corporate governance is needed..

### **Huge Increase in Top Management Compensation**

With the immense rise in the fiscal reparation packages of crown level business executives, there is no validation for excessive expenditure to crown grade managers, out of business resources, which are belongings of shareholders and the general public provides a value so as to implement corporate governance for efficient operations of corporate.

### **Globalization**

In petite, it is a method of governing the company like a monarchical state, in stating its own custom policies and laws to its employees from all levels. Corporate governance is proposed to boost the liability of the business and to steer clearance of huge disasters well in advance.

## **CORPORATE GOVERNANCE-THE PRINCIPLES**

### **Transparency**

It becomes organizational liability to explain and make openly know the roles and responsibilities of the board and administration to provide stakeholders with a degree of clarification. Measures have to be separately authenticated to preserve the reliability of organization's financial report.

### **Accountability**

It's the liability of the Chairman, the Board of Directors and the Chief Executives of the companies to explain the result of decisions taken in the interest of growth of the company and its shareholders and also to ensure optimum utilization of resources.

### **Independence**

It determines the level of independence provided for the top management which must be a strong non adherent body so that they can take all corporate decisions based on business prudence.

## **CORPORATE GOVERNANCE-THE FRAMEWORK**

Corporate governance structure furnishes open and implied contracts between the business and the stakeholders for the allocation of tasks and privileges.

## **ROLE AND EFFECTIVENESS OF BOARD OF DIRECTORS**

Instigation of appointing Board of Directors being a complex procedure, association with legal advisories will be recommended for its enhancement. Normally, the ultimate control resides with stakeholders for the appointment of Governance Board who can always employ, and more prominently, now and then- discharge a director. These shareholders should be able to secure the least and a number of directors. Typically the board appoints a manager to his place of work.

The Board of Directors focus on providing direction for the organization in order for its effective growth and development. Establishing a guiding principle based authority system to preside over the association and the connection with the CEO. Their fiduciary duty is to protect the organization's assets, member's investment and moreover, they also

coordinate with monitoring and controlling functions. The board needs sufficient size and suitable levels of self-governance and promise.

The roles of board of directors comprise the following.

- Establish vision, mission and values.
- Set strategy and structure.
- Delegate to management
- Exercise accountability to shareholders and to be responsible for relevant stakeholders.
- Ensure adequate resources.
- Manage resources effectively.
- Decide and observe the organization's outcomes.
- Improve the organization, community representation in society.
- Evaluate its private recital over a valid time frame.

## GOVERNANCE MODEL

Despite the above roles of Board of Directors, they utilize governance models for success of the value added business and smooth running of organizations. A Board of Directors being a collection of individuals trying to operate as a group, functioning as a group of many people cultural differences occur sometimes. Each culture refers to individual background of members on the board. Exploration of the right model is important among several government models of how a board of directors can function. Below are the four governance models in which the board and its organization function.

- **Manager Focus** – the model emerges when you have a charismatic CEO who is very dominant and proactive in running the organization. Managers dominate the board, boards functions are an advisory board and reacts to the view of the manager.
- **Proactive Board** – In this model, manager and the board are on same page and speak with single voice. Entrepreneurial businesses value more in a proactive model, because it takes advantage of emerging opportunities.
- **Geographic Representation** – In this model, the board members were elected to characterize persons in a specific geographic position or special interest group. This is frequently found in huge boards, usually of 24 to 50 persons.
- **Community Representation** – In this model, the members on behalf of the specific community rather than the individual organization participate.

## CONCLUSIONS

Decisively, it would be opting to conclude that business operations don't follow any unique structure of corporate governance and it seems uncontrolled beyond regulations, tangible and intangible financial and managerial factor, the

extent which the shareholder's responsibility, the information that management shares to commit cannot be transferred at any level of details. As an alternative, these evolve due to the precipitate role played by the more progressive elements within the corporate sector and, thus, enhance corporate transparency and responsibility.

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